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March 5, 2003

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MAR - 5 2003

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, SW
Washington D.C.

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: Alascom, Inc.'s Petition for Waiver of Annual Tariff F.C.C. No. 11
WC Docket No. 03-18

Dear Ms. Dortch:

Enclosed please find an original and four copies of Alascom, Inc.'s Reply to Opposition in the above-referenced proceeding. Please date stamp the enclosed extra copy and return it with the messenger.

If you have questions regarding this filing, please do not hesitate to contact the undersigned counsel.

Sincerely,



Charles R. Naftalin
Holly R. Smith
Holland & Knight LLP
Counsel for Alascom, Inc.

WAS1 #1163760 v1

15 MAR 2003 044

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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MAR - 5 2003

In the Matter of)

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Alascom, Inc. Request for)

) WC Docket No. 03-18

Waiver of Commission Rule)

And Orders Requiring Annual)

Tariff Revision)

REPLY TO OPPOSITION

Alascom, Inc., a wholly owned subsidiary of AT&T Corp. ("Alascom"),
by its counsel, hereby replies to the General Communication, Inc. ("GCI")
Opposition to Alascom's Petition for Waiver in the above-captioned
proceeding.¹

I. Introduction.

Alascom requested a waiver of the Commission's rules and orders
requiring **annual** rate revisions to its Tariff No. 11 because its Cost Allocation
Plan ("CAP") model that the Commission requires Alascom to use, and data
necessary to it, were not sufficient to produce reliable 2003 rates. As stated
to the Commission, there would be more integrity in maintaining the 2002
Tariff No. 11 rates rather than submitting unreliable new rates.

GCI's Opposition calls for fines to be levied against Alascom based
upon two contentions. First, GCI argues that Alascom's Petition should be

¹ See *Alascom, Inc. Request for Waiver of Commission Rule and Orders Requiring Annual
Tariff Revision*, WC Docket No. 03-18 (January 7, 2003) ("*Petition*"); *General
Communication, Inc. Opposition to Petition for Waiver*, WC Docket No. 03-18 (February 5
2003) ("*Opposition*").

denied because Alascom failed to annualize the previous 2002 data, compute results using year 2002 investments and year 2001 traffic, or go to great pains and spare no expense to recapture missing data, a process which would have been substantively infeasible.² Second, GCI alleges that Alascom fails to explain *exactly* how the CAP model has become obsolete to Alascom's request and then GCI urges that the CAP was invalid at all times.

The Petition was supported by a thorough Declaration of outside experts. *See Declaration, of John C. Klick and Julie A. Murphy*, Attachment A to the *Petition* ("*Initial Declaration*"). The instant Reply is supported by the Reply Declaration of those experts, *Reply Declaration of John C. Klick and Julie A. Murphy* ("*Reply Declaration*"). As demonstrated below, GCI offers no valid factual or legal basis to support its *Opposition*.

11. The Commission Expressly Approved the CAP.

In its Opposition, GCI glosses over the fact that, the Commission required Alascom to prepare the CAP.³ Alascom retained outside consultants to do so. and submitted it to the Commission which, which initially reviewed and rejected the CAP.⁴ Alascom and its consultants took the staffs

² See *Opposition* at pp. 11-12. As further detailed in the *Reply Declaration of John Klick and Julie Murphy*, GCI's expert statement merely concludes that it is possible that Alascom could reconstruct the data, however, the statement oversimplifies the process ignores the associated expense.

³ See *Integration of Rates and Services for the Provision of Communications by Authorized Common Carriers between the Contiguous States and Alaska, Hawaii, Puerto Rico and the Virgin Islands*, 9 FCC Rcd 3023 (1994) (*Market Structure Order*) (adopting *Alaska Joint Board Final Recommended Decision*, 9 FCC Rcd 2197 (Joint Board 1993) (*Final Recommended Decision*) (recommending annual tariff filing at ¶ 143)).

⁴ *Alascom, Inc., Cost Allocation Plan for the Separation of Bush and Non-Bush Costs*, 10 FCC Rcd 4963 (1995) (*Initial CAP Order*).

directions, amended the CAP and resubmitted it when, after further review by the staff, it was approved.⁵ Accordingly, the CAP is the exact model that the Commission directly reviewed, substantively amended and expressly approved. GCI's various assaults upon it are nothing more than a repetition of complaints from 1995 and 1996." As such, they **lack** legal validity.

GCI's challenges to the model are flawed. The Commission mandated, evaluated and expressly approved the CAP model. Thus, the CAP is a "lawful" model prescribed by the Commission and the Commission should give it the deference and protection required for "lawful" carrier rates, which are the required outcome of the CAP process. Rates which are "lawful," have been reviewed affirmatively and found just and reasonable, and therefore are afforded a "conclusive presumption of reasonableness." The same should be true for the CAP as the model used by Alascom to develop Tariff No. 11 rates. Moreover, it would be fundamentally unfair, indeed irrational, to penalize Alascom now for developing rates based upon the CAP to which the Commission required it to adhere.

⁵ See *Alascom, Inc. Cost Allocation Plan for the Separation of Bush and Non-Bush Costs*, 10 FCC Rcd 9823 (1995) (*CAP Approval Order*).

⁶ See *GCI Comments in Response to Alascom, Inc. Cost Allocation Plan*, DA 94-758 (September 2, 1994); *General Communications Petition for Reconsideration of the Memorandum Opinion and Order Approving Cost Allocation Plan* (October 11, 1995); *General Communications Inc. Petition for Reconsideration of Request for Inspection of Records* (November 3, 1995); *Reply Comments of GCI in Response to Petition for Reconsideration of Memorandum Opinion and Order* (November 13, 1995); *General Communications Inc. Application for Review* (January 30, 1996); *General Communications Inc. Petition for Reconsideration of Request for Inspection of Records* (March 19, 1996).

⁷ See e.g. *Arizona Grocery Co. v. Atchison, Topeka & Santa Fe Railway Co.*, 284 U.S. 370, 387-89 (1932); see also *Streamlined Tariff Order*, 12 FCC Rcd 2171, 2181-82, ¶¶19-20 & nn.62, 65.

In addition, as shown below, GCI's various complaints about the CAP ordered by the Commission do not address the testimony of Mr. **Klick** and Ms. Murphy and even mischaracterize some of it. *Reply Declaration* at ¶ 4

III. The Facts Show that the CAP Has Functioned as the Commission Has Required but that the Passage of Time and Substantial Changes in Conditions Have Overtaken It.

GCI's claim that the CAP model never worked undermines almost two years of FCC staff review of, and interested party input to, the initially filed and the subsequently approved CAP models. *Reply Declaration* at ¶ 6. GCI also ignores Alascom's expert testimony that the CAP initially worked as the FCC predicted—that **93** percent of all expenses and investments were directly assignable or attributable to Bush and non-Bush cost categories by the model. *Id.* at ¶ 7. Additionally, that certain circa-1994 data are hard coded within the CAP establishes that the CAP was in fact accurate. *Id.* Obviously, the model produced accurate results, the Commission's staff certainly found that it did. The point which GCI mischaracterizes is that as time goes by, a model containing hard-coded data gradually becomes less reliable.

It is change over many years that has inserted unreliability to a CAP that functioned as the Commission wanted it to at inception. As stated in the attached *Reply Declaration*, "the sorts of dramatic changes we identify as taking place since **1994** (1) clearly call into question the distinction between non-competitive Bush locations and competitive non-Bush locations that we

understand motivated the CAP process to begin with, and (2) **are** likely to affect the propriety of some of the allocation assumptions and mechanisms used in the CAP process." *Id.* at ¶ 9.

Mr. Klick and Ms. Murphy state that the proliferation of cell phone and Internet, use combined with changes in the law, such as the "freezing" of Bush locations,⁸ have rendered the model less reliable over time. *See generally, Initial Declaration* at ¶¶ 6, 17-19. Their testimony, which is the only substantial evidence before the Commission, makes it clear that the CAP functions as the Commission requires but that changes in circumstances have rendered it less accurate than in the past.

IV. GCI Mischaracterizes Alascom's Data Collection Problems and Records.

With respect to GCI's opposition regarding the availability of 2001-2002 data for producing new 2003 rates, GCI misleads the Commission when it contends that those data do not exist. In their Initial Declaration, Mr. Klick and Ms. Murphy state the opposite. Their testimony (*Initial Declaration*, ¶ 28), misstated by GCI, is that the necessary data do exist as part of the 365 million call detail records that AT&T collects each day.⁹

⁸ In 1997, the Bureau reviewed Alascom's revised CAP filing and acted on a Petition for Reconsideration of the Alascom Cap Approval order filed by GCI. *See Alascom, Inc., Cost Allocation Plan for the Separation of Bush and Non-Bush Costs*, Memorandum Opinion and Order Approving Cost Allocation Plan, 12 FCC Rcd 1991 (1997). In doing so, the Bureau froze in time the classification of Bush and non-Bush areas because "the process of reclassifying locations between rate zones based only on the presence of a competitor may actually discourage competition." *Id.* at ¶¶ 25-27. Alascom's March 15, 1997 Application for Review of this decision remains pending today, almost ~~six~~ years later.

⁹ GCI alleges that Xlascom violated the Commission's regulations concerning toll billing records based on the absence of some data necessary to run **the** CAP for the year 2002. *See*

However, retroactively obtaining the data for the nine months would require searching approximately 100 billion records to identify approximately 200 million Alascom records. *Id.* at ¶ 11. The point is that such an enormous search, and its expenses, are infeasible

GCI's "expert" statement," of Mr. Leahy opines that "the traffic records for calls on Alascom's network should be available" and assuming they are available, that the records should include call-by-call detail that can be sorted into Bush, non-Bush, intrastate and interstate categories." Alascom agrees but such a search would be far more burdensome than useful, especially to support a CAP model for which regulatory change should be undertaken, as Alascom has been seeking for three years in its Petition for Elimination of Conditions.¹²

GCI also alleges that the Commission should deny Alascom's waiver request because Alascom could have run the model extrapolating from four months of data, or alternatively, using year 2001 data against year 2002 investment and expenses. As stated by the experts in the *Reply Declaration*, it is extremely unreliable to extrapolate from such a small proportion of the actual data, particularly in circumstances that are characterized by the sorts

GCI Opposition at p. 19. AT&T maintains toll billing records on behalf of Alascom in compliance with the Commission's Rules. As asserted above, and as confirmed by Mr. Klick and Ms. Murphy, the relevant data have been maintained as well but that extrapolating them would be infeasible under the circumstances.

¹⁰ We note that no substantial qualifications were submitted to qualify Mr. Leahy as an expert.

¹¹ See *Alascom Reply Declaration*; it ¶ 10, citing *Opposition* at 12.

¹² See *AT&T Corp. and Alascom Inc. Petition for Elimination of Conditions*, CC Docket No. 00-46 (filed March 10, 2000).

of dramatic and rapid shifts in demand, as shown in the *Initial Declaration*. *See Initial Declaration* at ¶ 16; *Reply Declaration* at ¶ 18-19. For the same reason, it would be arbitrary to run the CAP using last year's volume statistics with this year's investment, and expense inputs. *Reply Declaration* at ¶ 18-19. Neither option is as sound as maintaining the 2002 rates in effect for 2003.

Alascom is willing to consider alternative rate making processes in order to make amendments to Tariff No. 11 more efficient, and Alascom is willing to engage in discussions with GCI designed to resolve their differences. However, any such change to the rate making process would have to be presented to the Commission for its review and approval, including suggestions from GCI.

V. GCI Shows that the Results of the CAP Have Been Internally Consistent.

It is undeniable that, the overall intent of the Commission in requiring and overseeing the development of the CAP was to ensure that Alascom is properly assigning costs to Bush and non-Bush categories. GCI ignores the substantial indications that, the CAP functions as required, even if changes in circumstances have affected it,. Instead, GCI argues that switching rates that differ between the Bush and non-Bush rate zones prove that the CAP is inaccurate. GCI is wrong. As explained in the *Reply Declaration*, there is nothing unreasonable about the development of higher switching and transport rates in non-competitive Bush areas than in competitive non-Bush

areas. *See Reply Declaration* at ¶ 17. The CAP attributes investment and expenses to Bush and non-Bush locations using logical factors other than minutes of use (MOU). For example, investment in toll center switch facilities – a major component of total switching investment – is attributed quite logically on the basis of Bush and non-Bush total T-1 equivalents. Because Bush locations have 40% of the total T-1 equivalents, but only 25% of the minutes, this loads to investment costs per MOU for toll center switch facilities that are twice as high for Bush locations as for non-Bush locations. *Id.*

The experts also note that substantial new satellite investments have affected transport rates disproportionately. Because Bush locations use nearly 70% of Alascom's satellite channels, but generate only approximately 25% of the minutes, satellite investments and expenses per minute of use fall much more heavily on the Bush rate zone. *Reply Declaration* at ¶ 16.

Therefore, GCI's criticism of Tariff No. 11 switching rates is baseless. Indeed, the current differences between switching rates have a similar relationship to the switching rates produced by the CAP immediately after its approval by the staff, which establishes that the CAP's performance with respect to switching has been consistent with the staff's requirements.

VI. GCI's Opposition is Premised on Unsupported Misrepresentations.

GCI claims that Alascom should be fined for various reasons. Among them are allegations such as: violation of the toll billing records requirement;

subsidizing service to non-Rush locations; abandonment of data collection as regulatory "self help;" violations of the requirements of Parts 32 and 36 and Sections 64.901 and 64.903 of the Rules; AT&T used the CAP but it never inspected or understood it; and that Alascom's waiver request should be denied because GCI was not permitted to review the CAP model in 1995.

GCI offers no credible evidence to support these claims. Indeed, as shown previously, many of GCI's allegations are contrary to the facts established in the declarations of Mr. Klick and Ms. Murphy.

VII. Conclusion.

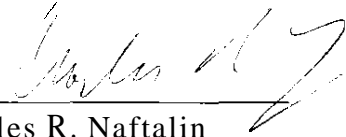
A long-term resolution to the problems raised in this proceeding is clear. The CAP must be replaced with a simple, rational and economic system. GCI itself has admitted in principle that a price cap system would be appropriate for Tariff No. 11. See e.g., *Opposition* at p. 21. AT&T and Alascom's Petition for Elimination of Conditions (now pending three years without action), if granted, would solve the controversies and burdens generated by the CAP. Alternatively, granting the Petition for Waiver is a reasonable interim solution.

Therefore, Alascom respectfully requests that the Commission grant Alascom's request for waiver of Section 61.58(e)(3) of the Commission's rules, and the Commission decisions and policies underlying that rule, requiring an

annual rate revision for its Common Carrier Services ("CCS") tariff (Alascom
Tariff F.C.C No. 11) on at least 35 days' notice.'':'

Respectfully submitted,

ALASCOM, INC.

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March 5, 2003

WAS1 #1163719 v3

¹³ See 47 C.F.R. § 61.58(e)(3).

REPLY DECLARATION OF

JOHN C. KLINK

AND

JULIE A. MURPHY

1. We are John C. Klink and Julie A. Murphy. We filed a Declaration in support of the Petition for Waiver filed by Alascom, Inc. ("Alascom") on January 7, 2003 ("Initial Declaration"). Our qualifications were included as Exhibits 1 and 2 to that Declaration.
2. At Alascom's request, we filed the Initial Declaration to report on our review of the Cost Allocation Plan ("CAP") and Alascom's efforts to use the CAP to establish Tariff No. 11 rates for 2003. That declaration concluded that (1) there were reasons to believe that the CAP was no longer functioning as was originally intended;¹ (2) the current CAP process was very resource intensive, while its original purpose seems to no longer be particularly relevant; and (3) there were serious data problems for portions of 2001 and 2002 that made it impossible to use the CAP to calculate revised Tariff No. 11 rates for 2003.²
3. The purpose of this Reply Declaration is to respond to certain allegations made in *General Communication, Inc. Opposition to Petition for Waiver* ("GCI

¹ For example, we demonstrated that in recent years, the CAP was unable to directly assign as high a proportion of expenses and investment as was the case when it was first established.

² As the CAP was designed, the 2003 rates would be based on data for the time period July 1, 2001 through June 30, 2002. However, as set forth in our Initial Declaration, Alascom was unable to collect useable data for the last three months of 2001 and the first seven months of 2002.

Opposition”) that was filed on February 5, 2002, and to the *Statement of John Leahy* that was attached as Exhibit 3 to the GCI Opposition.

4. Our overall reaction is that the GCI Opposition is more concerned with reiterating arguments that GCI evidently made in 1994 and 1995, when the CAP was originally established, and which the FCC found unpersuasive at the time. GCI seems less concerned with substantively responding to the issues raised in our declaration. Furthermore, when the GCI Opposition does attempt to substantively address issues we raised, it often mischaracterizes our testimony. In this declaration, we hope to clarify certain of these issues.
5. Clearly, our Initial Declaration identified a number of reasons that strongly suggest that the CAP is not functioning, today, as it was intended to when the FCC approved the CAP process in 1995. From our initial testimony in this regard, GCI seeks to leap to the conclusion that the CAP process must *never* have worked properly. Although we became involved only recently, GCI’s conclusion seems unwarranted.
6. First, the GCI Opposition gives little consideration to the fact that the FCC staff reviewed the initial CAP proposed by Alasconi, took into account criticisms made by interested parties, including CCT and AT&T (which, at the time, was a party adverse to Alasconi), and required substantive changes to the CAP before approving it in 1995. To suggest the CAP *never* worked, as GCI does, is to ignore what were obviously significant efforts undertaken by the FCC in developing the CAP, and to impugn the FCC’s intentions in trying to establish

cost-based carrier's carrier rates that were intended to ensure a level playing field for all carriers in Alaska.

7. Second, GCI ignores the evidence set forth in our Initial Declaration concerning significant decline that has occurred in the percentage of expenses and investment that the CAP now directly assigns (as opposed to directly attributed or allocated) from the 20 percent that characterized the early runs of the CAP process. As we noted in our Initial Declaration, the percentage of expenses that is directly assigned have declined to 16.02% in 1999 and 8.59% in 2001 CAP cost models. Much of the overall decline was observed in the last few years.¹ Although the percentage of directly assignable expenses and investment has declined—raising substantial questions about what has changed—the CAP still requires allocation of relatively small proportions of total expenses and investments. This is strong evidence that at one point, the CAP process worked well. Similarly, the fact that certain circa 1994 statistics are used as hard coded bases for allocation within the CAP means the CAP process is likely to be less and less accurate as time goes on but it does not suggest that the CAP process failed to work properly when it was first implemented.
8. Third, GCI belittles our efforts to suggest that certain changes in the nature of the telecommunications services provided in **Alaska**, may have adversely affected the original intent of the CAP process. Specifically, we noted that (1) the explosive

¹ While we have not undertaken an exhaustive analysis of the reasons why this occurred, our Initial Declaration noted that Alascom had increasingly made investments and incurred expenses assigned to CLOCs that can not be directly assigned to Bush or non-Bush locations. It is also important to note that while the percentage of expenses and investment directly assigned has declined, this has been offset by an increase in the percentage of expenses and investment directly attributed. Thus, the percentage of expense directly assigned or directly attributed—the standard used by the FCC in evaluating the initially approved CAP—has remained in the 90% range throughout this period.

growth in the use of calling cards and other 1-800-CALLATT services since 1994/1995 had dramatically shifted the minutes of use as reported in the CAP and (2) the advent of significant cell phone usage created facilities usage patterns and data recordation issues that had the potential to distort the output of the CAP process (Initial Declaration at ¶ 18). In particular, we identified a particular cell phone calling pattern that, by virtue of its call flow, had the potential to double-count the minutes of use recorded by Alascom

9. While it is true that we have not yet had the opportunity to undertake the detailed analysis of the CAP process that would be required to definitively determine how each of these new developments would flow through the CAP and affect the costs that it calculates, the sorts of dramatic changes we identify as having taken place since 1994 (1) *clearly* call into question the distinction between non-competitive Bush locations and competitive non-Bush locations that we understand motivated the CAP process to begin with, and (2) are *likely* to affect the integrity of some of the assignment, attribution and allocation assumptions and mechanisms used in the CAP process.

10. In this regard, our Initial Declaration also raised the question whether it was appropriate to undertake a detailed analysis of the CAP process at this point given the resource intensive nature of developing rates using the CAP each year, particularly in light of the issues raised in the *Petition for Elimination of Conditions* that Alascom and AT&T have had pending at the Commission for the past three years (CC Docket No. 00-46).⁴ That pleading raises legitimate concern

⁴ See AT&T Corp. and Alascom Inc. Petition for Elimination of Conditions, CC Docket No. 00-46 (filed March 10, 2000).

about the ongoing need to run the CAP process and file Tariff No. 11 rates. GCI also ignores this portion of our Initial Declaration – it seems intent only on trying to force Alascom and AT&T to spend money on an unreliable and we believe unnecessary “update” of the CAP process for 2003, and on persuading the FCC impose a fine on Alascom

10. In this latter regard, GCI completely mischaracterizes the observation in our Initial Declaration that “there is no effective means of collecting” the data for June 2001 through July of 2002 (Klick/Murphy Declaration at ¶ 29). GCI asks the FCC to infer, based on our testimony, that these data do not exist (GCI Opposition at 12), and to impose a fine for “violation of . . . document retention requirements” (GCI Opposition at 19), and GCI also obviously incurred cost to have Mr. Leahy file a statement in which he concludes that

“the traffic records for calls on Alascom’s network should be available. In addition, these records should include call-by-call detail with the originating and terminating numbers of each call. These records can be sorted to obtain volumes for Bush, non-Bush, interstate and intrastate calling, to the extent these data are actually used by the CAP in developing rates”

GCI Opposition at 12

11. However, as we explained in ¶ 28 of our Initial Declaration, there is no dispute about the fact that these data *do* exist - they are part of the 365 million Call Detail Records that AT&T collects each day and retains in a data storage facility.⁵ This translates into 11 billion Call Detail Records per month that are collected and stored. The point raised in our Initial Declaration was *not* that it is infeasible to

⁵ It is our understanding that AT&T maintains the Call Detail Records for all interstate calls to the continental United States handled by Alascom.

process the 20 million records a month associated with Alascom's operations. Instead our point was that it is infeasible to search 11 billion records a month to *find* the 20 million records associated with Alascom, and to do that for the 9 months that are missing for the July 1, 2001 through June 30, 2002 period required to apply the CAP to develop the 2003 Tariff No. 11 rates.

12. In another instance, GCI implies that Alascom is no longer maintaining required Part 32 account by elliptically citing a portion of a statement from our Declaration: "For example, the model reports Part 32 balance sheet and expense data for all CLOC locations⁶ as hard-coded numbers, which sheds no light on the underlying basis for the assignment of dollars to specific geographic or functional locations." In a highly misleading fashion, GCI omitted the underscored portion of the quote.⁷ Our Initial Declaration was clearly referring to the *allocation* of dollars entered into the worksheet each year that did not fall into a specific CLOC code. Nowhere did we suggest that the Part 32 Account data itself was not updated for each Tariff filing. To the contrary, we found that the Part 32 balance sheet and expense input data is designed to be updated each time the CAP process is run, and that these updates did occur. Furthermore, we found that Alascom updated the CAP expense and investment inputs in the yearly CAP filings.
13. When one cuts through all of the rhetoric, there are only two substantive issues raised by the GCI opposition. First is GCI's belief that *the CAP process is* and has been seriously flawed from the beginning. This belief seems to be based on

⁶ The CLOC is a geographic region that PTI developed and maintained its account information in the normal course of business.

⁷ Compare GCI Opposition at ¶ 19 and Klick/Murphy January 7, 2002 Declaration at ¶ 14.

the fact that “although the same switching facilities are used to provide Bush and non-Bush services – and thus the costs of switching to serve Bush and non-Bush areas are the same – Alascom tiled a Bush switching rate almost double that of the non-Bush switching rate.” (GCI Opposition at 5).⁸ There are two responses to this complaint.

14. First, the FCC undertook a detailed analysis of the CAP before adopting it in 1995, and that very first CAP application produced much higher switching and transport rates in non-competitive Bush areas than in the competitive non-Bush regions. This fact is confirmed by the following table, which summarizes the history of the CAP-produced rates.

**Alascom Interstate
Common Carrier Services Rate History (\$/ MOU)**

<u>Year Effective</u>	<u>Intra-Alaska Transport</u>		<u>switching</u>		<u>Alaska/ CONUS Transport</u>
	<u>Bush</u>	<u>Non-Bush</u>	<u>Bush</u>	<u>Non-Bush</u>	
1996	\$0.2403	\$0.0383	\$0.0381	\$0.0218	\$0.0207
1997	\$0.2681	\$0.0535	\$0.0334	\$0.0230	\$0.0202
1998	\$0.1988	\$0.0721	\$0.0334	\$0.0305	\$0.0209
1999	\$0.2151	\$0.0732	\$0.0333	\$0.0271	\$0.0225
2000	\$0.2384	\$0.0695	\$0.0408	\$0.0222	\$0.0142
2001	\$0.2163	\$0.0848	\$0.0366	\$0.0190	\$0.0180
2002	\$0.2083	\$0.0766	\$0.0357	\$0.0174	\$0.0218
Annual Change	-2.4%	12.2%	-1.1%	-3.7%	0.9%

⁸ See, also, GCI Opposition at 15: “GCI was concerned about the questionable results produced by the CAP such as switching costs that vary within the same switch as if one minute of traffic over the same switch was somehow more expensive than the other.”

15. Second, the fact that switching and transport rates would be higher in Bush than non-Bush areas is neither surprising nor inappropriate, given that the Tariff No. 11 rates are expressed on a minute of use ("MOU") basis. The majority of originating and terminating usage occurs in non-Bush areas. As our Initial Declaration demonstrated, more than 75% of the total interstate switched usage originated or terminated in non-Bush locations (76% = 896/1,174 million switched minutes). However, the CAP employs logical attributions other than minutes of use, which is bound to affect Bush and Non-Bush locations differently. For example, the 2002 run of the CAP identifies two CLOCs (4000 and 4768) that comprise a large portion of the investment in digital switching (Part 32 account 2212. These two facilities are toll center switch facilities, which the CAP allocates between Bush and Non-Bush locations on the basis of total T-1 equivalents (the sum of switched plus private line T-1 equivalents). While the Bush areas have only approximately 25% of the minutes, they have nearly 40% of the total T-1 equivalents. Mathematically, this would result in a cost per MOU for the Bush areas that is twice the cost in the non-Bush areas.⁹

16. Apart from the absolute levels of local switching and transport rates, GCI also complains about relative *changes* in the Bush rates vis-a-vis the non-Bush switching rates over the last few years.¹⁰ While Alascom's total net plant

⁹ If total investment is "y" and total MOU are "x", the average cost per MOU is y/x. If Bush locations have 40% of the investment and 25% of the MOU, then the cost per Bush MOU is $.4y/.25x = 1.6(y/x)$ or 160% of system average; non-Bush locations have 60% of the investment and 75% of the MOU--this cost per MOU is $.6/.75x = .8(y/x)$ of system average. In short, this yields exactly the 2-to-1 relationship of Bush to non-Bush switching that GCI complains about.

¹⁰ GCI Opposition at Exhibit 4.

investment (and expenses) have remained relatively stable over the past few years, an increasingly higher proportion of these investments are associated with network elements that the CAP associates with Bush areas.¹¹ For example, over the last few years Alascom made a large investment in satellite and earth station (and other radio) facilities equipment (generally, these are reported in Part 32 Account 2231). For example, in 2000, Alascom purchased a new satellite system - the Aurora III -- much of which is used to provide service to the Bush areas of Alaska. The CAP model reports this investment as to CLOC 9984 and allocates the cost between Bush and non-Bush locations by the percentage of transponder channels assigned to Bush and non-Bush locations. Because the majority of the transponder channels in Alascom's network are utilized by Bush locations (69.32% in 2001), almost 70 percent of the satellite investment in that year was attributed to Bush locations, even though these locations in total comprise only approximately 25 percent of the interstate MOUs. All else being equal, therefore, investments such as these increase the Bush transport rates relative to the non-Bush rates.

17. Because logical cost attribution factors do not necessarily align with relative minutes of use, one would *expect* lower transport costs per interstate MOU for the non-Bush locations than for the Bush locations, as the above examples demonstrate. There would be more cause for alarm if the CAP did *not* produce a difference of the magnitude cited by GCI. Thus, *the* logical foundation of GCI's criticisms of the CAP is flawed. Furthermore, as noted above, the relationship between the current Bush and non-Bush switching rates is approximately the

¹¹ The CAP model was designed to identify the most appropriate cap

same as the relationships exhibited in the original version of the CAP model adopted by the FCC.¹²

18. The second substantive issue raised in the GCI Opposition relates to the missing data required to generate 2003 rates from the CAP. Although GCI admits that it is “ill-equipped to recommend a specific rate level for any tariff element” (GCI Opposition at 20), it appears quite comfortable suggesting that Alascom should have solved the problem of the missing data by “simply annualiz[ing] the data it has or comput[ing] results with last year’s traffic data and this year’s investment and expense” (GCI Opposition at 12). In our view, neither of these suggestions seems as sound as the approach we suggested of maintaining the 2002 rates in effect for 2003.
19. As noted earlier, data is missing for 9 of the 12 months that normally would be used to calculate the 2003 rates under the CAP. Our experience is that it is extremely unreliable to extrapolate to an entire year from such a small proportion of actual data, particularly in circumstances that are characterized by the sorts of dramatic and rapid shifts in demand displayed in the table in ¶ 16 of our Initial Declaration. For the same reason, it would be arbitrary to run the CAP using last year’s volume statistics with this year’s investment and expense inputs. This ignores both changes in overall volumes and changes in the mix of the various levels of resources required to provide each of the services that are reflected in the CAP.

¹² Of course GCI is silent on this relationship between the Bush and non-Bush transport rates because it cuts against its switching argument. While the original Bush transport rates were nearly 6 times greater than the non-Bush transport rates, the most recent CAP model resulted in Bush transport rates only 2.5 times the non-Bush rates. See Table 1 above.

20. If the CAP has validity as a cost-finding tool, one **would** expect that the costs per output activity would be relatively stable from year-to-year. As the table displayed earlier demonstrates, this indeed has been the case. Furthermore, our proposal to extend last year's rates through 2003 has the added advantage of avoiding the expenditure of precious resources in running the *CAP* process for what would clearly be a relatively meaningless exercise.¹³

¹³ GCI characterizes as "carefully crafted," "misleading," and "confusing" the statement made by Alascom in November 2002 that "[a]fter review of the available data, at this time Alascom is unable to **determine** whether changes in its investments, expenses and operations since submission of its most recent rate revision to Tariff 11 would be sufficient to warrant rate revisions now for 2003." GCI Opposition at 7. and fn. 20. However, Alascom's statement is entirely accurate. The data required to definitively determine whether rate changes for 2003 are warranted cannot be feasibly developed, and absent that data it is not possible to justify any change. As we note in the body of our Declaration, however, there is reason to believe that the 2002 rates are the most reasonable proxy for rates that would have been determined for 2003 if the required data were available.

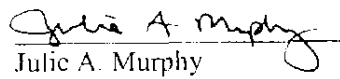
VERIFICATION PAGE

I declare under penalty of perjury that the foregoing Declaration is true and correct.


John C. Klick

Executed on: March 5, 2003

I declare under penalty of perjury that the foregoing Declaration is *true* and correct


Julie A. Murphy

Executed on: March 5, 2003

CERTIFICATE OF SERVICE

I, Marianne C. Trana, a legal secretary in the firm of Holland & Knight LLP, hereby certify that on the 5th day of March, 2003, copies of the foregoing Reply to Opposition of Alascom, Inc. were deposited in the U.S. Mail, postage prepaid, to the following:

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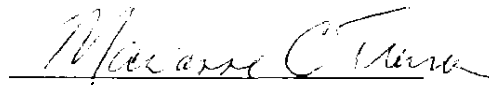
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